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Docket Unit
California Energy Commission
Docket No. 01-GGE-1
1516 Ninth Street, MS4
Sacramento, CA 95814-5512

Subject: Forestry Protocol Guidance to the California Climate Action Registry

Weyerhaeuser Company appreciates the opportunity to provide comments on the above referenced guidance document. The undersigned attended the Commission's May 27, 2004 workshop and therefore will provide only supplemental comments at this time. Weyerhaeuser Company maintains operations in several areas of California, and is actively engaged in the manufacture of a wide variety of forest products, including packaging and structural building materials. In this regard, we want to take this opportunity to share our general views on this guidance document.

In developing these comments, we found several of the objectives identified at the May 27th workshop by state officials to be of significance. At that workshop, it was noted that there is a desire to add value from carbon credits to private forests in a way that encourages sustainable forest management, reduces forest loss from fire and pests, and encourages private forest land owners to maintain their lands as managed forest lands. It was also noted that there was a desire, through the creation of the Registry and the issuance of this guidance, to gain wider participation by private forest companies in the Registry's activities.

In general, we found that the proposed guidance helpful in providing us with an understanding of the complexities that must be addressed in considering participation in a greenhouse gas inventory registry. The proposed guidance has indeed identified and addressed several key, and often controversial variables, such as how to ensure "additionality," avoid "leakage," ensure "permanence" provide technically sound quantification methods, avoid over counting, and ensure transparency of process while protecting that information participants may need to classify as business confidential or proprietary.

The proposed approach of using the California FPA rules as the basis for defining the business as usual (BAU) case is laudable. We suggest that consideration be given to accepting third

party certification of adherence to these requirements as adequate proof of maintenance of BAU levels of carbon stocks on sustainably managed lands. The obligation to conduct more frequent and detailed third party certification and verification of carbon stocks should be deferred to any future design and adoption of a carbon credit emissions trading system, wherein buyers and seller will want to have a higher level of assurance of the presence of those quantities that have been sequestered and sold for the length of the contract. Thus, the investment of dollars to carry out such assessments will be market driven, and the level of trading and market driven prices for such credits will incorporate that cost. This type of an approach will help to lessen the current expected cost burden of qualifying forest land carbon inventories for acceptance by the Registry.

In regard to the issue of permanence, questions were raised about the potential for a short term "sale" of carbon credits that would be replaced at a future date. This concept, sometimes referred to a temporary credits, or renting of credits is addressed in a paper entitled: "*Inter-trading permanent emissions credits and rented temporary carbon emissions offsets: some issues and alternatives,*" by R. Sedjo, Resources for the Future, Washington, DC and G. Marland, Oak Ridge National laboratory, Oak Ridge, TN (2003). Copies can be found at www.sciencedirect.com or by contacting the authors directly. While this paper addresses matters pertaining more to a market trading system, it may provide insights as to the nature of the information that such a trading system would need and want to be able to qualify through a state or national registry.

As noted at the May 27th workshop, we believe that existing procedures and rules for protecting confidential and proprietary business information in other state programs should prove to be an adequate means for addressing this concern, and they can be readily incorporated into the guidance document. This approach will also minimize the burden of participants of having to learn new rules, as most forest land owners would likely be familiar with these existing rules as they apply to FPA activities that are already in place.

Another element noted at the workshop as being a potential barrier to participation is the obligation to establish easements on forest lands to ensure carbon retention. This would seem to be an excessive requirement for a registry program. There is a need to ensure that carbon stocks do not change, or that if they do, the change must be recognized and reported in a way that would debit or credit a Registry participant's account accordingly. However, here again, we believe that a more cost-effective means for achieving this can be accomplished by ensuring that FPA requirements are met under steady-state levels of forest management, wherein no claim of additionality is being made with respect to the BAU baseline case. Similarly, where "additionality-based" credits are being registered, the participant should be able to submit reasonable documentation for the basis of such claims. More stringent requirements for ensuring "permanence" of such additionality-based credits when such credits are traded, should again be left to the design of rules and procedures for a trading program, wherein the rules under which buyers and sellers are obligated to sort out who is liable for the permanence of the exchanged credits are clearly set forth. As is the case in other commodities markets, a capacity to "check" or audit the veracity of such representations can be created to ensure the program's integrity. Attempting to build all these capabilities into a registry, however, are likely to overload the development costs of preparing and maintaining an inventory, and thereby

discourage participation. Further, a need to establish a permanent easement will in many cases likely be a decision to change and limit the future land use options in a way that can have a very significant effect on valuation. This valuation risk may present a major "cost" to an owner and discourage participation, even if no future land use change is currently contemplated. Again, this creates, in our view, an unnecessary barrier to participation.

Another matter addressed in the guidance is the issue of uncertainty, and how reported values should be adjusted to address this uncertainty. We believe that it would be more prudent to require registrants to declare the methods used to quantify the forest carbon values in each of the carbon regimes – bole/stem, canopy, roots, soil, and dead organic matter (DOM) pools – and to declare the level of assigned certainty to the value in each category included. Improvements in forest carbon measurement methodologies in the future will undoubtedly contribute to improving the quality and accuracy of such data. In the meantime, the registry could consider allowing only the mean value of the estimated carbon stocks in each category to be included, thus minimizing the risk or degree of over or under-counting. Any future trading system would also benefit from the declaration of the variance, as the "quality" of the credit will be financially discounted depending on the certainty of the total value being traded. Most financial markets have well developed systems for "grading" such assets, and the opportunity to sell a quality, or AAA carbon credit that commands the best price would add an independent mechanism, in the form of market pricing pressure, that would encourage more accurate measurement over time.

Our comments reflect a preference to rely on market driven incentives to carry out market-based approaches to achieving environmental improvements. Such approaches can be affected by focusing on the accounting rules – what is in, what is out – and the acceptable methods for quantification of carbon stocks, requirements for disclosure (transparency) and accountability (liability for permanence). These framework elements, coupled with a credible government audit function, would likely reduce participant costs, encourage participation, and facilitate the formation of real active carbon markets that will require the service of a registry to support the "qualification" of offerings in such a market.

Obviously, this view assumes that efforts will be taken in the future to provide for the establishment of a greenhouse gas emissions trading mechanism and market system. We understand that this current document was not intended to address that element at this time.

The proposed guidance also recognizes the contribution made by the forest product carbon "sink" and we want to commend and support that decision. Based on comments made during the May 27th Sacramento workshop session, we understand that the document's wording is not intended to restrict the ownership of forest product credits to the forest owner, but rather reflects a view that the initial ownership, or claim to the title of such credits rests with the forest owner. During the discussion that occurred during the end of the workshop, it was apparent that questions about how title to the carbon credit may transfer across the forest products industry's value chain, or to others outside of our industry is more appropriately left to discussions concerning the design and development of greenhouse gas trading systems. State officials made note of that fact and that the current guidance was not intended to address or resolve the question of carbon title transfer. We appreciate that clarification, and look forward

to continuing our support of efforts by the Registry's officials and others to address this area of interest.

In closing, we want to note, and endorse by reference, the comments being submitted by the American Forest & Paper Association (AF&PA) and the National Council on Air and Stream Improvement (NCASI).

Again, we appreciate the opportunity to comment.

Sincerely,

Bob Prolman

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Weyerhaeuser Company